

Message Text

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PAGE 01 JAKART 10939 201238Z

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STADIS////////////////////////////////

FOR DEPUTY ASSISTANT SECRETARY EDMOND FROM AMBASSADOR NEWSOM

E.O. 11652: NA

TAGS: EFIN, EGEN, ID

SUBJECT: EXIMBANK LENDING TO INDONESIA

REF: (A) STATE 206245, (B) STATE 205557, (C) JAKARTA 7677

1. SUMMARY: E/CM COUNSELOR AND I MET WITH BANK INDONESIA (CENTRAL BANK) GOVERNOR RACHMAT SALEH AND MANAGING DIRECTOR J.E. ISMAEL FOR OVER ONE HOUR FRIDAY, AUGUST 20. MAIN FOCUS WAS EXIM REQUEST FOR ADDITIONAL DATA TRANSMITTED BY TELEX AND LETTER TO BI REGARDING EXIM NOTIFICATION THAT IT COULD NOT CONSIDER GOI APPLICATION FOR FUNDING LOCOMOTIVES. BI SUGGESTS THAT QUESTIONS IN PART WILL BE ANSWERED BY UPDATE OF KUHN-LOEB/MORGAN GUARANTY MEMORANDUM WHICH SHOULD BE AVAILABLE BEFORE END OF SEPTEMBER. IF ADDITIONAL QUESTIONS STILL EXIST, THEY CAN BE REVIEWED WITH PROPOSED EXIM TEAM (REF A). WE HAVE ATTEMPTED REASSURE MINISTER OF COMMUNICATIONS SALIM, THROUGH HIS DIRECTOR OF PLANNING, THAT EMBASSY AND DEPARTMENT SEEKING REASONABLE RESOLUTION OF PROBLEM ALONG WITH EFFORTS UNDERWAY BY GE. WE DO NOT REPT NOT KNOW AT THIS POINT WHETHER SALIM WILL GO AHEAD WITH HIS SUGGESTED CHANGE IN PROCUREMENT. END SUMMARY.

2. IN ONE-HOUR MEETING WITH BANK INDONESIA (BI) GOVERNOR RACHMAT SALEH, HE POINTED OUT EXIM REQUEST FOR ADDITIONAL
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PAGE 02 JAKART 10939 201238Z

DATA ON GOI INDEBTEDNESS WOULD BE EASY TO PROVIDE AND THAT

OF STATE ENTERPRISES WOULD BE EASY TO PROVIDE AND THAT OF STATE ENTERPRISES WOULD TAKE A LITTLE WHILE BUT COULD ALSO BE PROVIDED, PARTICULARLY FOR PERTAMINA, GARUDA, AND P.T. TIMAH (STATE TIN MINING ENTERPRISE). FURTHERMORE, MEDIUM AND LONG-TERM INDEBTEDNESS OF BANKS COULD ALSO BE PROVIDED BUT IT WILL BE EXTREMELY DIFFICULT TO PROVIDE DATA ON SHORT-TERM BANK BORROWINGS IN THE RANGE OF 30-180 DAYS.

3. SALEH REITERATED THAT DETAILED PROJECTIONS PROVIDED TO EXIM PREVIOUSLY BY BI ON BORROWINGS AND BALANCE OF PAYMENTS ARE BEST STAFF ESTIMATES FROM BI AND THAT "OFFICIAL" PROJECTIONS ARE THOSE CONTAINED IN REPELITA II. HE NOTED THAT FIGURES USED BY PRESIDENT SUHARTO IN HIS INDEPENDENCE DAY MESSAGE TO PARLIAMENT WAS PREDICATED ON THE IGGI AGREED ASSUMPTION THAT INDONESIA COULD EFFECTIVELY UTILIZE OFFICIAL BORROWINGS IN THE RANGE OF \$2 BILLION ANNUALLY THROUGH 1985-86. THESE BORROWINGS WOULD BE A MIX OF ROUGHLY 1/2 IN IGGI SOFT AND SEMI-SOFT TERMS AND 1/2 ON SUPPLIER CREDIT AND EQUIVALENT TERMS SUCH AS THOSE FROM EASTERN EUROPE AND MIDDLE EAST OIL PRODUCERS. HE ALSO NOTED THAT TO SPELL OUT WITH PRECISION TEN-YEAR PROJECTIONS OF SPECIFIC PROJECT-RELATED BORROWING WAS EXTREMELY DIFFICULT BECAUSE INDONESIA PURSUED FLEXIBLE POLICY OF ESTABLISHING PRIORITIES ANNUALLY WITHIN THE FRAMEWORK OF ITS FIVE-YEAR PLANS. (FYI: FOR EXAMPLE, AS RESULT OF DROUGHT THIS YEAR GOI ALLOCATION OF FINANCIAL RESOURCES FOR RICE IMPORTS IS PROBABLY GOING TO BE GREATER THAN THAT ESTIMATED TWELVE MONTHS AGO. ADDITIONAL PL-480 BORROWING AS WELL AS CCC IMPORTS ALREADY UNDERWAY FOR SUPPLIES FROM U.S. END FYI) SALEH ALSO POINTED OUT, AS DID EMBASSY IN REF C, THAT BI EXPORT AND IMPORT PROJECTIONS WERE BOTH MORE CONSERVATIVE THAN PROJECTIONS CONTAINED IN IBRD MAY 1976 REPORT PREPARED FOR IGGI.

4. RACHMAT SALEH, IN RESPONSE TO QUESTION, NOTED THAT NO OTHER SUPPLIER CREDIT AGENCY SUCH AS ECGD, COFACE, ETC., OR BANK REQUIRED DATA OF NATURE BEING ASKED FOR BY EXIM. HE ALSO OBSERVED THAT GOI IN FORM OF BI WAS NOT RPT NOT "SECRETIVE" ABOUT PROVISION OF ADDITIONAL DATA LIMITED OFFICIAL USE

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PAGE 03 JAKART 10939 201238Z

REQUESTED BY EXIM. GOI FACES DILEMMA. SALEH SAID THAT EXIM QUESTIONS IMPLIED SERIOUS DOUBT ABOUT ABILITY OF INDONESIA TO MEET ITS FUTURE COMMITMENTS AND THEREFORE TO PROVIDE DATA REQUESTED WOULD IMPLY THAT BI, AND THEREFORE GOI, CONCURRED IN EXIM'S JUDGMENT. THERE IS, ACCORDING TO SALEH, NO RPT NO UNEASINESS ON PART OF INDONESIAN FINANCIAL MANAGERS ABOUT INDONESIA'S ABILITY TO CONTINUE TO EFFECTIVELY MANAGE INDONESIA'S ECONOMIC AFFAIRS. THIS

BI VIEW IS EMPHASIZED BY RELATIVELY SMALL SIZE OF LOAN REQUESTED FOR LOCOMOTIVES, AND FOR GOI TO REPLY IN GREAT DETAIL TO EXIM REQUEST IN CONNECTION WITH REQUESTED CREDIT COULD CREATE DOUBTS ON PART OF OTHER FINANCIAL INSTITUTIONS WHO DO NOT RPT NOT HAVE SUCH CONCERNS. EXIM HAS, THEREFORE, SAID SALEH, PLACED BI IN "UNCOMFORTABLE" POSITION.

5. AMBASSADOR ALLUDED TO INDICATION THAT INDONESIA SOUGHT TO BORROW \$300-400 MILLION IN EUROPEAN AND ASIAN MONEY MARKETS. BOTH SALEH AND ISMAEL DISPLAYED VERY STRONG NEGATIVE REACTIONS. ISMAEL SAID THT NOT ONLY WAS THIS UNTRUE BUT THAT MORGAN GUARANTY UPDATING REPORT TO SYNDICATE MEMBERS IN JUNE CONTAINED SPECIFIC INDICATION THAT THERE WAS NO INTEREST OR NEED FOR INDONESIA TO SEEK ADDITIONAL B/P BORROWINGS. FURTHERMORE, SALEH SAID THAT BI HAD UNSOLICITED OFFER FROM U.S. PRIME BANK FOR FUNDS IN THIS RANGE AT TERMS BETTER THAN THOSE INVOLVED IN MORGAN GUARANTY SYNDICATED CREDITS, SPECIFICALLY SEVEN YEARS WITH A LOWER SPREAD OVER LIBOR. SALEH AND ISMAEL SPECULATED THAT THERE MIGHT BE SOME CONFUSION REGARDING THIS QUESTION RELATIVE TO RECENTLY SIGNED CREDIT AGREEMENTS WITH GERMAN BANKING INSTITUTIONS FOR SOME \$480 MILLION WORTH OF FINANCING FOR KRAKATAU STEEL.

6. IT IS OUR JUDGEMENT AT THIS POINT THAT WE SHOULD FOLLOW REQUEST OF BI GOVERNOR THAT EXIM CONSULT WITH KUHN-LOEB AND AWAIT PUBLICATION OF ITS UPDATED REPORT BY END OF SEPTEMBER AND THEN ON THAT BASIS DETERMINE NEED FOR AND PARAMETERS PROPOSED EXIMBANK MISSION. MEANWHILE, HOPEFULLY GE CAN GET EXIM CLEARANCE OR CAN SUCCESSFULLY MODIFY ITS ARRANGMENTS TO GO AHEAD WITH THE 21 LOCOMOTIVE TRANSACTION UNDER ALTERNATIVES AVAILABLE. HOPEFULLY BANK DURING THIS PERIOD COULD AVOID PRECIPITOUS ACTION ON LIMITED OFFICIAL USE

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PAGE 04 JAKART 10939 201238Z

OTHER OUTSTANDING PCS. BASED UPON CONVERSATION BETWEEN E/CM COUNSELOR AND MINISTRY OF COMMUNICATIONS CHIEF OF PLANNING, ABDULRACHMAN, ON EVENING AUGUST 19, WE BELIEVE THAT MINISTER SALIM WILL NOT TAKE ANY PRECIPITOUS ACTION AT THIS TIME, AND WE WILL SEEK TO RECONFIRM THIS JUDGEMENT.

7. RACHMAT SALEH SAID, IN WELCOMING EXIM TEAM VISIT, THAT ANNUAL IBRD/IMF MEETINGS AND PREPARATION OF DATA FOR IBRD TEAM VISIT DUE IN DECEMBER WOULD BE SERIOUS COMPLICATION FOR FALL EXIM VISIT. HE SUGGESTED THAT EXIM VISIT AT TIMETIME OF IBRD VISIT OR LATER, SAY EARLY 1977, WOULD BE BETTER THAN IN FALL.
NEWSOM

NOTE BY OC/T: PARA NBRED TWO LINES 4 & 5 POSSIBLE DUPLICATION,

CORRECTION FOLLOWS.

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